

Legislative Audit Division

State of Montana



Report to the Legislature

March 2000

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1999

Montana State Library Commission

This report contains one recommendation related to processing payroll with the Statewide Accounting, Budgeting, and Human Resource System.

STATE DOCUMENTS COLLECTION

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 1999, will be issued by March 31, 2000. Copies of the Single Audit Report, when available, can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

Legislative Audit Division
Room 135, State Capitol
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Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

March 2000

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana State Library Commission for fiscal years 1997-98 and 1998-99. The report contains one recommendation related to processing payroll with the Statewide Budgeting, Accounting, and Human Resource System. Written responses to the audit report from the Montana State Library Commission and the Department of Administration are included in the back of the audit report.

We thank the Montana State Library Commission officials and their staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", written over a horizontal line.

Scott A. Seacat
Legislative Auditor

Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1999

Montana State Library Commission

Members of the audit staff involved in this audit were Cindy S. Jorgenson, Sonia Powell, Jenny Solem, and Vickie Rauser.

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Appointed and Administrative Officials

Montana State Library Commission

		<u>Term Expires</u>
Michael Schulz*	Dillon	May 2001
Chairperson		
Mary Doggett		
Vice Chairperson	White Sulphur Springs	May 2001
Cheri Bergeron**	Helena	
Rosemary Garvey	Butte	May 2000
David Johnson	Billings	May 2000
Dorothy Laird	Whitefish	May 2002
Al Randall	Troy	May 2002

* Appointed by the Commissioner of Higher Education from the Montana University System.

** Designee for the Superintendent of Public Instruction. No term is set.

Administration

Karen Strege, State Librarian

Jim Stimson, Program Manager,
Natural Resource Information System

Darlene Staffeldt, Program Manager,
Statewide Library Resources

Kris Schmitz, Accountant

Montana State Library Commission

This financial-compliance audit report contains the results of the audit of the Montana State Library Commission (Library) for the two fiscal years ended June 30, 1999.

The report contains one recommendation directed to the Library related to processing payroll on the Statewide Accounting, Budgeting, and Human Resource System.

We issued an unqualified opinion on the financial schedules contained in the report. This means the reader may rely on the financial information presented and the supporting data on the Statewide Budgeting and Accounting System.

The listing below serves as a means of summarizing the recommendations contained in the report, the Library's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the Library work with the Department of Administration to identify and implement cost-effective methods for processing payroll in accordance with federal and state withholding requirements. Page 10

Introduction

Introduction

We performed a financial-compliance audit of the Montana State Library Commission (Library) for the two fiscal years ended June 30, 1999. The objectives of the audit were to:

1. Determine if the Library complied with applicable laws and regulations.
2. Make recommendations for improvement in the internal and management controls of the Library.
3. Determine if the financial schedules present fairly the Library's results of operations and changes in fund balances for the two fiscal years ended June 30, 1999.

This report contains one recommendation to the Library. Areas of concern deemed not to have a significant effect on the successful operations of the Library programs are not included in this report, but have been discussed with management. In accordance with section 5-13-307, MCA, we analyzed and disclosed the costs, if significant, of implementing the recommendation made in this report.

Background

The Library is the focal point for the development and improvement of library services in Montana. It provides general library services to Montana state government and operates the Montana Talking Book Collection and Natural Resource Information System. The Library operates under policies established by the Montana State Library Commission. The Library was created in 1929 by law, which is currently codified in Title 22, chapter 1, MCA. The Library Commission consists of seven members as follows: five persons appointed by the Governor; the state Superintendent of Public Instruction or her designee; and a librarian appointed by the Commissioner of Higher Education from the Montana University System.

The Library's financial activity is accounted for in two programs: 1) the Statewide Library Resources Program; and 2) the Natural Resource Information System Program.

Introduction

Statewide Library Resources Program

State law charges the Library Commission with providing library services to state government and with developing and improving statewide library services. To accomplish this, the Statewide Library Resources Program has four major components:

Library and Information Services Department provides for the information needs of state government employees and officials. The department provides reference information services and lends materials, either directly to users or through academic, school, special, or public libraries. The department also provides centralized library material acquisition, cataloging, and technical processing and operates the state documents depository center.

Library Development Department provides consultation on all issues affecting libraries in Montana. This includes applications for telecommunication discounts, statewide database subscriptions, library statistics, collection management, and availability of grant funds. This department also provides assistance to Montana libraries to promote efficient delivery of library services to Montana's citizens. Department staff assist libraries in understanding laws applicable to their operations and act as consultants for libraries in the process of enhancing their technology. They also provide assistance with budget preparation, continuing education, and collection management.

Montana Talking Book Library provides library services for the blind, visually impaired, and physically disabled who are unable to read standard print. The library lends books and magazines in a variety of formats to eligible individuals and institutions. It maintains and distributes special playback equipment and accessories for the program. The Library of Congress provides the playback equipment and the majority of recorded books and materials.

The Talking Book Library operates a volunteer program. In calendar year 1997, 114 volunteers contributed 13,568 hours to the Talking Book Library. In calendar year 1998, 119 volunteers contributed 11,454 hours. The volunteers provide assistance in the

daily tasks such as filling orders for cassette books and preparing them for shipment. In addition, volunteers record books for the blind that are of interest to Montanans or are written by Montana authors.

Administration provides central management, fiscal and accounting services, and federal program administration for the Library.

Natural Resource Information System Program

The 1983 Legislature established the Natural Resource Information System (NRIS) to improve the availability and accessibility to data and information on Montana's natural resources. NRIS operates a clearinghouse and referral service to link users with the best sources of information. It helps coordinate among agencies and organizations which use the same types of natural resource information to reduce duplication and promote information sharing. NRIS serves governmental agencies, business and industry, and private citizens. NRIS personnel provide assistance in systems design and establishing standards for data collection to ensure quality and compatibility. NRIS has three main components:

Montana Natural Heritage Program maintains a computerized inventory of Montana's biological resources, emphasizing rare, threatened, or endangered plant and animal species and biological communities. The program is operated through a contract with The Nature Conservancy, which operates similar heritage programs in all 50 states and several foreign countries.

Montana Water Information System functions as the starting point for locating water resources information in Montana, such as data on surface water, groundwater, water quality, riparian areas, water rights, and climate data.

Montana Geographic Information System (GIS) personnel provide technical assistance on how to present data on maps to provide useful information. GIS personnel also assist state agencies and other users of geographic information in developing in-house expertise in using the system.

Introduction

Funding

Total expenditures for the Library were \$3,292,349 and \$3,469,172 for fiscal years 1997-98 and 1998-99, respectively. Library operations and grants to local libraries are financed from General Fund appropriations, federal assistance pursuant to the Library Services and Technology Act, and a portion of the state's Coal Severance Tax. NRIS is primarily funded through contracts with federal, state, and local governmental entities. NRIS also contracts with private and public not-for-profit businesses. The remainder of the funding for this program comes from the General and the Resource Indemnity Trust Funds.

The Library was authorized 28.5 full-time equivalent (FTE) employees. It consisted of 24.5 FTE providing library services and administration and 4 FTE operating NRIS. NRIS operated with approximately 8 additional FTE during the biennium, funded through contracts with users of the system. Appropriation law allows the NRIS program to expand its FTE level to accommodate an increase in service contracts.

Prior Audit Recommendations

Prior Audit Recommendations

We performed the audit of the Montana State Library Commission for the two fiscal years ended June 30, 1997. That audit of the Library resulted in no recommendations.

Findings and Recommendations

NRIS Payroll

The state of Montana implemented the Human Resource Management System (HRMS) in April 1999 as part of the Statewide Accounting, Budgeting, and Human Resource System (SABHRS). With the implementation of HRMS, Library personnel began to experience difficulties in processing payroll for the Natural Resource Information System (NRIS) employees.

The NRIS operations are funded through multiple sources. Legislative appropriations provide NRIS with core funding for maintaining the state's water and geographic information systems. In addition, legislative contract authority allows outside organizations to contract with NRIS for water and geographical information services. The Library bills the contracting parties for actual costs incurred in fulfilling the service contracts, which includes personal services costs such as salary, benefits, and leave. Each NRIS employee works on both core funded projects and service contracts. The allocation of their time fluctuates each pay period depending on which projects they are involved in. To accurately bill the contracting parties, the Library allocates the personal services costs according to the time spent on each contract.

In HRMS, each employee can have multiple employee and benefit records. Library personnel used the first employee record to represent core funded positions and the second employee record to represent positions funded through service contracts. Library personnel were able to process one paycheck for each NRIS employee by configuring HRMS so that both employee records pointed to the first benefit record. They subsequently learned that when one paycheck is issued, leave balances and costs are automatically tied to the first benefit record which is tied to the core positions. For leave costs to allocate between positions, HRMS has to be configured to issue two paychecks for each employee. This is accomplished by using separate employee and benefit records for each position. Library personnel determined that the allocation of leave costs between positions and the accuracy of financial reports was necessary for billing purposes. After consulting with state payroll personnel, Library personnel decided to direct the system to

Findings and Recommendations

produce two paychecks for each NRIS employee, one for the time worked on core projects and the other for time worked on service contracts. Personnel with the SABHRS Support Bureau, Department of Administration, confirmed that agencies needing to track leave costs by position must process more than one paycheck per employee unless they are able to develop an alternative method for obtaining that information.

The following paragraphs discuss the impact the Library's decision to issue more than one paycheck has had on its payroll processing. SABHRS personnel confirmed that the following situations occur when an agency chooses to issue two or more paychecks and indicated these situations do not occur when a single paycheck is issued.

Income Tax Withholding

The state is required to withhold state and federal income tax from an employee's paycheck according to the information documented on the employee's Form W-4 and the established withholding rates. HRMS considers each paycheck as belonging to a separate employee and is unable to combine the gross wages from both paychecks when determining tax withholdings. As a result, state payroll withholds less federal and state income tax for these individuals than it should. Table I illustrates how the tax withholdings for two NRIS employees were affected by the issuance of two paychecks.

Table 1 Comparison of Total Tax Withholdings			
<u>Pay Period Ending</u>	<u>Tax Type</u>	<u>Employee A</u>	<u>Employee B</u>
April 9, 1999*	State	\$35.51	\$ 61.67
	Federal	<u>43.56</u>	<u>212.20</u>
	Total	\$79.07	\$273.87
June 4, 1999**	State	\$20.15	\$ 46.07
	Federal	<u>0</u>	<u>164.17</u>
	Total	\$20.15	\$210.24
* Pay period prior to implementation of HRMS.			
** First pay period where two paychecks were issued.			
Source: Compiled by the Legislative Audit Division from agency records.			

Findings and Recommendations

Library personnel indicated the effect on withholdings fluctuates each pay period because the allocation of employee time fluctuates. They have responded to this situation by counseling NRIS employees to estimate their tax liability and request an additional amount be withheld each pay period. However, this does not alleviate the state's responsibility to treat a full-time employee as such for tax withholding purposes.

Voluntary Withholdings

State employees may participate in several voluntary withholding programs, such as deferred compensation or flexible spending. Participation in these program is contractual in nature. The state has a fiduciary responsibility to ensure it honors the contractual agreements with the employees regarding voluntary withholdings. Library personnel determined that HRMS automatically attaches voluntary employee withholdings to the first benefit record, which is tied to the core positions. These withholdings are only deducted if gross wages in the core position exceed the total of the withholdings. If gross wages are not sufficient, the withholdings are not made and the state violates the contractual agreement established with the employee. In order for voluntary deductions to be handled properly, the Library has directed NRIS employees to work at least 20 hours each pay period on core projects.

Group Insurance

When an agency issues more than one paycheck for an employee, HRMS does not allocate the state group insurance benefits among the funding sources tied to the employee's positions. In HRMS, group insurance benefits are attached to the first benefit record. Because the service contract positions are aligned with the second benefit record, these costs are charged entirely to the core funded positions. Library personnel must manually calculate the amount of these costs that should be paid by the various service contract accounts and process a correcting entry on the financial records. SABHRS personnel noted that when only one paycheck is issued per employee, HRMS is able to split these costs by funding source. Library personnel also indicated that because group insurance is tied to the first benefit record, these benefits may be interrupted if less than 20 hours are charged to the core position.

Findings and Recommendations

Statewide Impact

State payroll personnel identified a total of 51 state employees from 17 state agencies who received two paychecks for the pay period ending January 14, 2000. Of these, 9 are employed with two separate agencies, indicating the individual is working in multiple part-time positions. While it was not efficient for us to determine specific situations requiring multiple records to be used for these individuals, it is apparent the issues described above affect agencies other than the Library.

We believe the Library should reevaluate its current procedures and determine whether alternative methods are available for processing payroll which will allow the state of Montana to be in compliance with federal and state withholding requirements as well as mitigating difficulties encountered related to voluntary withholdings and group insurance for Library employees. The ramifications of not complying with tax withholding requirements and the disruptions in employee pay and benefits warrant this consideration. We also believe there are options available to the Library for properly allocating the cost of leave used by NRIS employees. These include establishing a leave additive or manually allocating the cost to the various programs. A leave additive would allow the Library to charge the cost of leave to the various projects as the leave is earned, rather than when the leave is taken. The Library should work with the Department of Administration and other state agencies affected by this situation to develop a cost-effective method for allocating leave benefits on the financial records.

Recommendation #1

We recommend the Library work with the Department of Administration to identify and implement cost-effective methods for processing payroll in accordance with federal and state withholding requirements.

Independent Auditor's Report & Library Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Montana State Library Commission for each of the two fiscal years ended June 30, 1999 and 1998. The information contained in these financial schedules is the responsibility of the Library's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the Library's assets and liabilities.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Montana State Library Commission for the two fiscal years ended June 30, 1999 and 1998, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "James Gillett".

James Gillett, CPA
Deputy Legislative Auditor

January 20, 2000

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MONTANA STATE LIBRARY COMMISSION
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

	General Fund	Special Revenue Fund	Expendable Trust Fund
FUND BALANCE: July 1, 1998	\$ (92,122)	\$ 19,101	\$ 50,650
ADDITIONS			
Budgeted Revenues & Transfers-In		1,272,788	
Nonbudgeted Revenues & Transfers-In	32,575	187,793	10,231
Prior Year Revenues & Transfers-In Adjustments	48		
Cash Transfers In (Out)	1,483,087	481,128	
Total Additions	<u>1,515,710</u>	<u>1,941,709</u>	<u>10,231</u>
REDUCTIONS			
Budgeted Expenditures & Transfers-Out	1,521,538	1,780,052	
Nonbudgeted Expenditures & Transfers-Out		182,524	
Prior Year Expenditures & Transfers-Out Adjustments	(697)	(14,245)	
Total Reductions	<u>1,520,841</u>	<u>1,948,331</u>	<u>0</u>
FUND BALANCE: June 30, 1999	\$ (97,253)	\$ 12,479	\$ 60,881

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA STATE LIBRARY COMMISSION
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

	General Fund	Special Revenue Fund	Expendable Trust Fund
FUND BALANCE: July 1, 1997	\$ (115,053)	\$ (6,574)	\$ 15,562
ADDITIONS			
Budgeted Revenues & Transfers-In		1,183,524	
Nonbudgeted Revenues & Transfers-In	29,080	7,639	49,286
Cash Transfers In (Out)	1,562,123	544,390	
Total Additions	<u>1,591,203</u>	<u>1,735,553</u>	<u>49,286</u>
REDUCTIONS			
Budgeted Expenditures & Transfers-Out	1,570,060	1,710,067	
Nonbudgeted Expenditures & Transfers-Out			14,198
Prior Year Expenditures & Transfers-Out Adjustments	(1,788)	(189)	
Total Reductions	<u>1,568,272</u>	<u>1,709,878</u>	<u>14,198</u>
FUND BALANCE: June 30, 1998	\$ <u>(92,122)</u>	\$ <u>19,101</u>	\$ <u>50,650</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA STATE LIBRARY COMMISSION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

	General Fund	Special Revenue Fund	Expendable Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Charges for Services	\$ 32,276	\$ 187,972	\$	\$ 220,248
Investment Earnings	70		2,938	3,008
Miscellaneous	277	172		449
Grants, Contracts, Donations and Abandonments		262,063	7,293	269,356
Federal		1,010,374		1,010,374
Total Revenues & Transfers-In	32,623	1,460,581	10,231	1,503,435
Less: Nonbudgeted Revenues & Transfers-In	32,575	187,793	10,231	230,599
Prior Year Revenues & Transfers-In Adjustments	48			48
Actual Budgeted Revenues & Transfers-In	0	1,272,788	0	1,272,788
Estimated Revenues & Transfers-In		2,084,404		2,084,404
Budgeted Revenues & Transfers-In Over (Under) Estimated	0	(811,616)	0	(811,616)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Charges for Services	\$	(1,649)	\$	(1,649)
Grants, Contracts, Donations and Abandonments		(24,617)		(24,617)
Federal		(785,350)		(785,350)
Budgeted Revenues & Transfers-In Over (Under) Estimated	0	(811,616)	0	(811,616)

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA STATE LIBRARY COMMISSION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

	General Fund	Special Revenue Fund	Expendable Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Charges for Services	\$ 29,080	\$ 8,488	\$	\$ 37,568
Investment Earnings			2,690	2,690
Grants, Contracts, Donations and Abandonments		289,832	46,596	336,428
Federal		892,843		892,843
Total Revenues & Transfers-In	29,080	1,191,163	49,286	1,269,529
Less: Nonbudgeted Revenues & Transfers-In		7,639		86,005
Actual Budgeted Revenues & Transfers-In	29,080	1,183,524	49,286	1,183,524
Estimated Revenues & Transfers-In		2,306,338		2,306,338
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 0	\$ (1,122,814)	\$ 0	\$ (1,122,814)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Charges for Services	\$	(651)	\$	(651)
Grants, Contracts, Donations and Abandonments		(223,787)		(223,787)
Federal		(898,376)		(898,376)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 0	\$ (1,122,814)	\$ 0	\$ (1,122,814)

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA STATE LIBRARY COMMISSION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

PROGRAM EXPENDITURES & TRANSFERS-OUT BY OBJECT	State Library Operations	Natural Resource Information System	Total
Personal Services			
Salaries	\$ 675,215	\$ 379,803	\$ 1,056,018
Other Compensation	2,625		2,625
Employee Benefits	185,046	95,521	281,567
Total	<u>864,886</u>	<u>475,324</u>	<u>1,340,210</u>
Operating Expenses			
Other Services	286,679	294,256	580,935
Supplies & Materials	62,380	32,389	94,769
Communications	35,019	14,350	49,369
Travel	56,785	10,801	67,586
Rent	187,932	3,425	191,357
Repair & Maintenance	38,555	24,686	63,241
Other Expenses	43,167	24,074	67,241
Total	<u>710,517</u>	<u>403,981</u>	<u>1,114,498</u>
Equipment & Intangible Assets			
Equipment	123,052	23,531	146,583
Total	<u>123,052</u>	<u>23,531</u>	<u>146,583</u>
Grants			
From State Sources	592,954		592,954
From Federal Sources	231,589		231,589
Total	<u>824,543</u>		<u>824,543</u>
Debt Service			
Installment Purchases	18,304	25,034	43,338
Total	<u>18,304</u>	<u>25,034</u>	<u>43,338</u>
Total Program Expenditures & Transfers-Out	\$ <u>2,541,302</u>	\$ <u>927,870</u>	\$ <u>3,469,172</u>
PROGRAM EXPENDITURES & TRANSFERS-OUT BY FUND			
General Fund	\$ 1,501,300	\$ 19,541	\$ 1,520,841
Special Revenue Fund	1,040,002	908,329	1,948,331
Total Program Expenditures & Transfers-Out	<u>2,541,302</u>	<u>927,870</u>	<u>3,469,172</u>
Less: Nonbudgeted Expenditures & Transfers-Out	182,524		182,524
Prior Year Expenditures & Transfers-Out Adjustments	(14,942)		(14,942)
Actual Budgeted Expenditures & Transfers-Out	<u>2,373,720</u>	<u>927,870</u>	<u>3,301,590</u>
Budget Authority	2,946,822	1,052,569	3,999,391
Unspent Budget Authority	\$ <u>573,102</u>	\$ <u>124,699</u>	\$ <u>697,801</u>
UNSPENT BUDGET AUTHORITY BY FUND			
General Fund	\$ 8,177		\$ 8,177
Special Revenue Fund	564,925	124,699	689,624
Unspent Budget Authority	\$ <u>573,102</u>	\$ <u>124,699</u>	\$ <u>697,801</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA STATE LIBRARY COMMISSION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

	State Library Operations	Natural Resource Information System	Total
PROGRAM EXPENDITURES & TRANSFERS-OUT BY OBJECT			
Personal Services			
Salaries	\$ 623,459	\$ 380,739	\$ 1,004,198
Other Compensation	2,425		2,425
Employee Benefits	168,845	90,590	259,435
Total	<u>794,729</u>	<u>471,329</u>	<u>1,266,058</u>
Operating Expenses			
Other Services	171,801	294,184	465,985
Supplies & Materials	51,170	27,166	78,336
Communications	35,519	16,816	52,335
Travel	54,114	18,754	72,868
Rent	181,259	3,600	184,859
Repair & Maintenance	35,326	25,467	60,793
Other Expenses	41,657	25,518	67,175
Total	<u>570,846</u>	<u>411,505</u>	<u>982,351</u>
Equipment & Intangible Assets			
Equipment	134,218	9,006	143,224
Intangible Assets	40,225	(50)	40,175
Total	<u>174,443</u>	<u>8,956</u>	<u>183,399</u>
Grants			
From State Sources	589,456		589,456
From Federal Sources	221,153		221,153
Total	<u>810,609</u>		<u>810,609</u>
Debt Service			
Installment Purchases	24,966	24,966	49,932
Total	<u>24,966</u>	<u>24,966</u>	<u>49,932</u>
Total Program Expenditures & Transfers-Out	<u>\$ 2,375,593</u>	<u>\$ 916,756</u>	<u>\$ 3,292,349</u>
PROGRAM EXPENDITURES & TRANSFERS-OUT BY FUND			
General Fund	\$ 1,535,452	\$ 32,821	\$ 1,568,273
Special Revenue Fund	825,943	883,935	1,709,878
Expendable Trust Fund	14,198		14,198
Total Program Expenditures & Transfers-Out	<u>2,375,593</u>	<u>916,756</u>	<u>3,292,349</u>
Less: Nonbudgeted Expenditures & Transfers-Out	14,198		14,198
Prior Year Expenditures & Transfers-Out Adjustments	(1,803)	(173)	(1,976)
Actual Budgeted Expenditures & Transfers-Out	<u>2,363,198</u>	<u>916,929</u>	<u>3,280,127</u>
Budget Authority	3,386,304	1,798,192	5,184,496
Unspent Budget Authority	<u>\$ 1,023,106</u>	<u>\$ 881,263</u>	<u>\$ 1,904,369</u>
UNSPENT BUDGET AUTHORITY BY FUND			
General Fund	\$ 141,018	\$ 19,542	\$ 160,560
Special Revenue Fund	882,088	861,721	1,743,809
Unspent Budget Authority	<u>\$ 1,023,106</u>	<u>\$ 881,263</u>	<u>\$ 1,904,369</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 1999

1. **Summary of Significant Accounting Policies**

Basis of Accounting

The Montana State Library Commission uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental and Expendable Trust Funds. In applying the modified accrual basis, the Library records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the Library to record the cost of employees' annual leave and sick leave when used or paid.

Expenditures and expenses may include: entire budgeted service contracts even though the Library receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the Statewide Budgeting and Accounting System (SBAS) without adjustment.

Accounts are organized in funds according to state law. The Library uses the following funds:

Notes to the Financial Schedules

Governmental Funds

General Fund - to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. Library Special Revenue Funds include the federal Library Services and Technology Act grant, allocations of Coal Severance Taxes and Resource Indemnity Trust fund earnings and Natural Resource Information System (NRIS) contracts with federal, state, and private entities.

Fiduciary Funds

Trust and Agency Funds - to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. The Library fiduciary fund is an Expendable Trust Fund which accounts for donations made to the Talking Book Library.

2. **General Fund Balance
(negative balances)**

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The Library does not have a separate General Fund since its only authority is to pay obligations from the statewide General Fund within its appropriation limits. The Library records cash or other assets from the statewide fund when it pays General Fund obligations. The Library's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for each of the two fiscal years ended June 30, 1998, and June 30, 1999.

3. **Cash Transfers-In**

The Library shares accounts with other state agencies. These accounts include the General Fund, two accounts within the Resource Indemnity Trust, and one account related to the Coal Severance Tax. The Departments of Revenue and Natural Resources & Conservation collect the revenue for these accounts and the Library has appropriation authority to spend from them. The amounts reported as Cash Transfers-In on the accompanying schedules represent the amount of money collected by the other departments and expended by the Library in support of its programs.

Notes to the Financial Schedules

4. **Nonbudgeted Activity**

The Library's nonbudgeted revenues for fiscal years 1997-98 and 1998-99 were as follows:

<u>Fiscal Year</u>	<u>Fund</u>	<u>Revenue Class</u>	<u>Amount</u>
1997-98	General	Charges for Services	\$29,080
		Charges for Services	7,639
	Expendable Trust	Investment Earnings	2,690
		Donations	46,596
1998-99	General	Investment Earnings	\$ 22
		Charges for Services	32,276
		Miscellaneous	277
	Special Revenue	Charges for Services	187,622
		Miscellaneous	171
	Expendable Trust	Investment Earnings	2,938
		Donations	7,293

The General Fund charges for services are that fund's share of indirect cost recoveries on federal funds; the Special Revenue Fund charges for services are fees paid by NRIS users. The Expendable Trust donations are moneys received for the Talking Book Library. The Expendable Trust Fund principal is invested by the Montana Board of Investments and generates the investment earnings recorded in the fund.

The Library recorded nonbudgeted expenditures of \$14,198 during fiscal year 1997-98 in the Expendable Trust Fund for computer and software acquisitions for the Talking Book Library. During fiscal year 1998-99, the Library incurred \$182,524 of nonbudgeted expenditures for LaserCat and EBSCOHost subscriptions. LaserCat allows search access to libraries in the Pacific Northwest. EBSCOHost is a database which indexes and abstracts over 3,000 journals on general, business, and health topics dating back to 1984.

Agency Responses



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FEB 25 2000

February 23, 2000

Scott Seacat
Legislative Auditor
State Capitol
P.O. Box 201705
Helena, MT 59620-1705

I thank the Legislative Audit staff for their assistance and work performed on the State Library Commission Financial-Compliance Audit for the two fiscal years ending June 30, 1999. The rapport they established with our personnel made the effort efficient and time effective. We value and appreciate their assistance and advice. The Library's response to the recommendation follows:

Recommendation #1

We recommend the Library work with the Department of Administration to identify and implement cost-effective methods for processing payroll in accordance with federal and state withholding requirements.

Response

The Library concurs. We have worked with Department of Administration since the onset of this problem. We have run a test to move two employees back to the one-paycheck method and are currently working with SABHRS staff to obtain the reports that we need. Our goal is to move the other nine employees' back to the one-paycheck method within the next two month's.

Should you have any questions concerning the Library's response, please feel free to contact me.

Sincerely,

Karen Strege
State Librarian

KS:kms

DEPARTMENT OF ADMINISTRATION
DIRECTOR'S OFFICE



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February 25, 2000

FEB 28 2000

Scott A. Seacat, Legislative Auditor
Legislative Audit Division
State Capitol
Helena, MT 59620

Dear Mr. Seacat,

Your staff has asked for our response to a recommendation contained in the Financial Compliance Audit of the Montana State Library Commission. The recommendation is:

We recommend the Library work with the Department of Administration to identify and implement cost-effective methods for processing payroll in accordance with federal and state withholding requirements.

This recommendation centers on the fact that some employees, including 11 employees at the State Library, receive two paychecks. Your audit discussion notes that this may result in under withholding of taxes and that voluntary deductions may not be withheld as appropriate.

Our review of this situation indicates that there are cases in which two paychecks are unavoidable. Two paychecks must be issued when an employee works in two agencies or works in two positions in one agency at two different pay rates. These circumstances account for about 25 percent of the employees who receive two checks. The number of employees who receive two paychecks does vary. The number for the pay period ending February 11, 2000, was 38 as compared to 51 for January 14, 2000.

As you noted in the audit, the State Library, as well as other agencies, issues two paychecks to account for differences in funding sources for an employee. Within SABHRS there are some alternatives to issuing two paychecks in this situation. We are currently working with the State Library and other agencies to examine these alternatives.

In those situations in which two paychecks are unavoidable, we are instructing state agencies to inform employees that they may need to make adjustments in their withholdings to insure that correct deductions can be made.

We appreciate the opportunity to work with your staff on this issue.

Sincerely,

A handwritten signature in cursive script, reading "Lois Menzies".

LOIS MENZIES
Director

